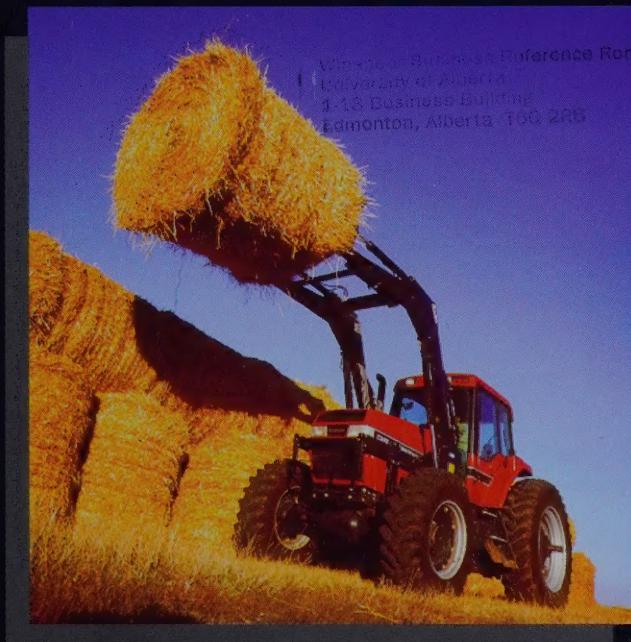


# 1996 ANNUAL REPORT



**bühler**



**Buhler Industries Inc.** is a diversified company involved primarily in manufacturing. This composite photograph features products produced at four of the company's manufacturing plants. **Buhler Furniture** is best known throughout Canada and north central United States for its curio cabinets which utilize glass products produced by the company's glass and mirror manufacturing plant. The farm equipment products are known throughout North America by their **Farm King** and **Allied** brand names.

Top shelf: **Grain Cleaner** - one of the many ag-products making Farm King a household name across Canada.

Fourth shelf: **Snowblower** - produced with both the Farm King and Allied brand names. Together, they dominate the snowblower market throughout North America's snow belt.

Third shelf: **Grain Auger** - one of a complete line of 4 through 13 grain augers sold throughout the grain growing regions of Canada and the United States.

Second shelf: **Finishing Mower** - the leading product of the Farm King compact implement line which includes a dozen different machines, each available in various sizes.

Bottom shelf: **Front End Loader** (see front cover) - manufactured for tractors from 12 to 185 hp and seen on farms throughout North America.

# Company Profile

Buhler Industries Inc. can trace its origin back to 1933, when the founder of the company, Mr. Adolf Krushel, began manufacturing farm equipment. Most notably, a high capacity grain grinder that was distributed throughout Western Canada. From these early beginnings, and in particular over the last 25 years since the company was acquired by John Buhler, the company has grown to become a significant player in the farm equipment industry.

Today, the company operates four highly modern manufacturing plants and five distribution centers totaling over 500,000 square feet of facilities and employing more than 500 people. The company remains strongly committed

to its core business as a major manufacturer of a wide range of agricultural equipment, marketed throughout North America under two primary brand names: **"Allied"** and **"Farm King"**. In recent years however, the company has expanded through diversification into new areas of manufacturing, identifying a few select market niches in custom steel fabrication. The company's laser division and Bradley Steel division serve as the focal points for expanding the custom steel fabrication service.

The company also operates furniture and mirror manufacturing divisions producing a high quality line of furniture and mirrors marketed under the brand name **"Buhler"**.

## To Our Shareholders

Buhler Industries Inc.'s 25th year under our management has been a very productive and rewarding one.

The outlook for the company's farm equipment division is very favorable as farm equipment sales are expected to continue to increase in the next few years, and the demand for component parts from other manufacturers continue to accelerate at a rapid pace.

To meet existing demand, and stimulate new demand in farm equipment, our research and development efforts resulted in the introduction of a totally new series of front-end loaders. To date market acceptance has been excellent and we are just beginning to see increased sales from these new models.

In response to the rapidly rising demand in components parts, the farm equipment division has increasingly diversified as other manufacturers became aware of our modern manufacturing facilities and ability to supply on a just-in-time basis. This trend toward increased sales of non-brand name products is expected to continue. We have decided to continue expansion to support this part of the business to as much as 50% of total sales, provided that this new business does not affect sales of brand name products.

The year was also marked by continued expansion in custom steel fabricating operations. In November, 1995, the company entered into a joint venture with Gerdau MRM, operating under the name Bradley Steel Processors, Inc. Bradley Steel manufactures specialized I-Beams marketed through Gerdau MRM to the trucking industry, and provides other customers with specialized custom steel fabrication services. In 1996, a 10,000 sq. ft. extension to the existing Bradley Steel facility was completed, along with several equipment additions, to provide additional productive capacity in support of this growing segment of the business.

The furniture and mirror divisions have performed better than anticipated, with 1996 sales representing approximately 12% of total company sales, and the outlook for 1997 maintaining a positive growth trend. Prior years' tax losses that came

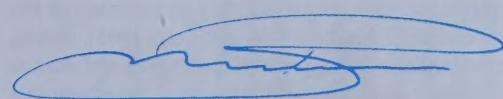
along with these acquisitions have been fully utilized. We expect continued profit improvement in these divisions.

In May of this year, the company purchased 100% of the shares of Dominion Lumber Winnipeg Limited, a manufacturer and supplier of roof trusses and other lumber products to the building construction industry. With the current low mortgage rates in Canada, and housing starts showing early signs of improvement, we believe this new subsidiary can become profitable in the near term, allowing us to utilize over \$3.8 million in tax losses.

The company commenced construction of a new 7,600 square foot corporate office building in the summer of 1996 to house the growing administration and support staff necessary to serve the operating subsidiaries. The new office is scheduled for completion in April, 1997 and is designed to include provisions for improved information and communications systems.

We are very pleased to report that Buhler Industries Inc. achieved a record year in terms of sales and profits. Details are provided in our Management Discussion and Financial Analysis. I would also like to draw your attention to the charts throughout this report and especially the eight year financial summary on page seven. We are proud of the fact that we ranked 205th in return on equity, and 228th in return on capital according to a recent Toronto Globe and Mail survey of the top 1,000 publicly traded companies in Canada. In this same report, the company ranked 485th in terms of profit.

I would like to thank our more than 500 employees, whose names are listed on the back cover of this report, for all of the long hours and extraordinary efforts that were put into achieving the record breaking results in 1996.



John Buhler  
Chairman

November 28, 1996

## Highlights

Year ending September 30	1989	1990	1991	1992	1993	1994	1995	1996
Sales	\$18,243	\$20,401	\$22,790	\$23,827	\$33,583	\$48,040	\$56,575	<b>\$66,517</b>
Gross Profit	5,814	6,171	6,406	6,623	8,764	12,753	16,522	<b>21,288</b>
Net Income After Taxes	1,250	1,119	1,245	1,178	1,142	2,421	3,703	<b>5,133</b>
Return on Capital	11%	13%	13%	9%	10%	11%	18%	<b>19%</b>
Return on Equity	12%	10%	10%	8%	7%	13%	16%	<b>18%</b>
Earnings per Share	0.06	0.05	0.06	0.06	0.06	0.12	0.18	<b>0.22</b>
Shareholders Equity	10,814	11,283	14,068	14,867	16,258	20,702	25,317	<b>31,811</b>
Capital Expenditures	1,244	746	2,364	1,952	969	9,369	7,884	<b>10,043</b>
Number of Employees	182	204	228	238	315	400	450	<b>525</b>

## Management Discussion & Financial Analysis

The 1996 fiscal year was the most successful year in the history of Buhler Industries Inc., as the Company attained both record sales and profits, while continuing to position for future growth and expansion.

The information contained in the following Management Discussion and Financial Analysis will assist you, as a shareholder, in understanding the nature of the business and the significant factors influencing the Company's financial results. This analysis should be read in conjunction with the consolidated financial statements.

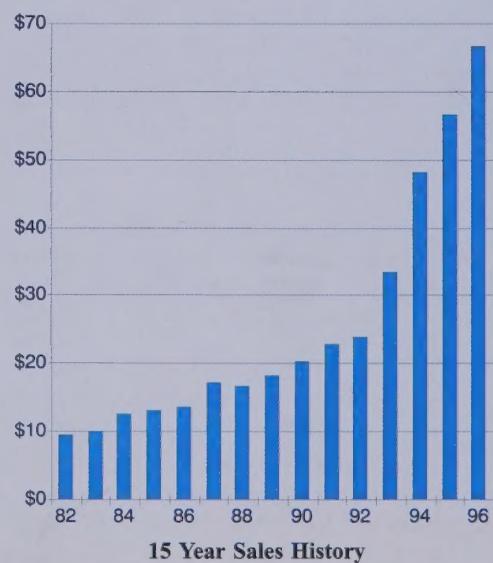
### Sales & Growth

For eight consecutive years the Company has achieved growth in net sales compared to the prior year. Sales for the 1996 fiscal year increased 18% to a record level of \$66.5 million (\$56.6 million in 1995). The growth in consolidated net sales can be attributed to continued strong demand in agricultural equipment operations coupled with the acquisition of Dominion Lumber Winnipeg Ltd. in May 1996 and a joint venture investment in a custom steel fabricator, Bradley Steel Processors Inc.

### Earnings & Profitability

The fourth quarter earnings marked the 15th consecutive quarter of increase in profits when compared to the same quarter in previous years. Profits for the year increased 38.6% to a record level of \$5.1 million (\$3.7 million in 1995). Strong profit performance in the agricultural equipment and custom steel fabrication operations contributed significantly to this increase.

	Operating Results by Quarter		Sales	Net Profit
1st Quarter		<b>1996</b>	<b>\$14,259</b>	<b>\$887</b>
		1995	12,967	630
2nd Quarter		<b>1996</b>	<b>13,830</b>	<b>792</b>
		1995	14,443	756
3rd Quarter		<b>1996</b>	<b>17,201</b>	<b>1,419</b>
		1995	14,846	1,121
4th Quarter		<b>1996</b>	<b>21,227</b>	<b>2,035</b>
		1995	14,319	1,196



# Management Discussion & Financial Analysis

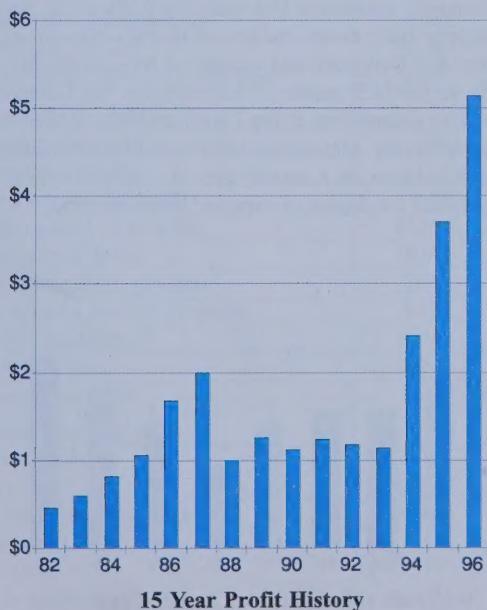
The Company recorded improved performance on all measures of profitability and growth in the 1996 fiscal year. Gross margins exceeded 30% for the first time since 1990, as the benefit of our continued investment in state of the art manufacturing plant and equipment began to yield improved production efficiencies. Return on capital invested hit a record of 19.1% (17.8% in 1995) while return on equity reached 18% (16.1% in 1995).

Continued tight controls on selling and administrative costs contributed to the record net profit of 7.7% of sales (6.5% in 1995).

Selling expenses of 6.8% (6.4% in 1995) of sales are up slightly from last year, but well below the eight year average of 8.1%. Administration expenses of 6.9% of sales (6.8% in 1995) are also up slightly from last year, but below the eight year average of 7.3%.

Interest costs for the 1996 fiscal year were almost 40% lower than the prior year as the result of decreased borrowing and lower interest rates. Amortization costs have increased 35% over the prior year due to the increased level of investment in capital assets. Research and technical expenses remain level with prior years.

Although the net profit of 7.7% for the 1996 fiscal year is well above our eight year average of 5.7%, the company goal of 10% has not yet been achieved. We are continuing to keep a tight control on all costs, toward meeting this profit goal.

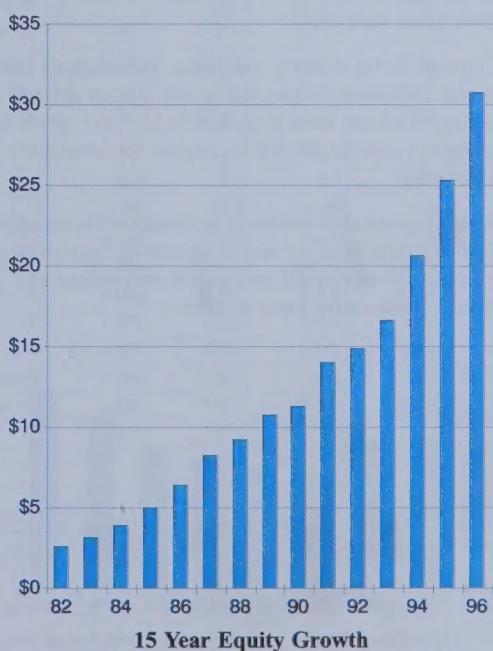


## Asset Management

During the year the Company invested \$10.0 million in new facilities and equipment, to continue to take advantage of the ongoing growth in demand in the farm equipment industry and custom steel fabrication. Total investment in capital assets of \$27.3 million over the past 3 years is already and will continue to pay big dividends in the form of reduced operating costs, improved production efficiency and higher production capacity in the future.

Inventory turns for the 1996 fiscal year of 5 turns (4.3 turns in 1995) are a result of the increase in volume of production of component parts and custom steel products that typically will have a higher turnover. Farm equipment may stay in our distribution channels for several months prior to sale.

Working capital at year end of \$10.5 million (\$11.7 million in 1995) consists of a 5 million dollar increase in accounts receivable resulting from higher sales levels, acquisitions and the joint venture; offset by a \$4.0 million increase in trade payables. The accounts receivable are being collected in the ordinary course of business and there has been no increase in bad debt experience associated with the increase in receivables.



# Management Discussion & Financial Analysis

## Liquidity

The Company's consolidated long-term debt to equity ratio reached an all time low of 0.22:1 at September 30th, 1996 (0.28:1 in 1995). This improvement resulted principally from repayment of \$1.7 million of long-term debt during the year, an increase in retained earnings as a result of record earnings for the year and a \$2.5 million increase in share capital resulting from the exercise of Class A common share options.

The working capital ratio at September 30th, 1996 of 1.7:1 (2.2:1 in 1995) is temporarily below the eight year average of 2.3:1 as a result of capital asset purchases and repayment of debt close to the end of the year.

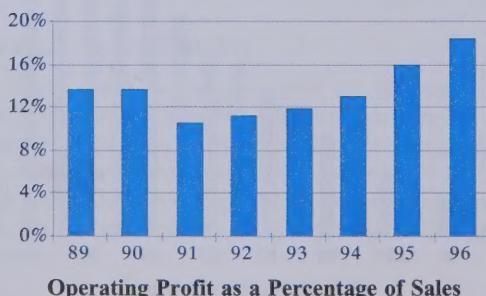
Continued improvement in both the debt to equity ratio and working capital ratio is expected, and will allow the Company to take advantage of new investments or acquisitions should they become available.

## Diversification

Diversification in the farm equipment division has been supported by significant expenditures to expand production facilities and acquire state of the art manufacturing equipment. During the year, the company commenced construction on a 63,000 sq. ft. extension to the Morden facility to house a new paint line and a brand new 2,000 ton hydraulic press. The press, while not yet commissioned, is the largest of its kind in Western Canada and we have already received several requests to perform specialized work utilizing this highly efficient computer controlled press.

New Trumpf metal working machines, Peddinghaus plasma and punch machines, lathes and a new Sierra skiving and burnishing machine were acquired to improve production efficiency and provide additional capacity for component part manufacturing.

The diversification also enables us to better utilize our existing 500,000 square feet of manufacturing facilities and technologically advanced equipment, including our five Cincinnati lasers in the laser division.



## Dividends

The Board of Directors have increased the annual dividend by 20% to \$0.06 per share compared with \$0.05 in 1995.

## Corporate Governance

The Toronto Stock Exchange recently issued a set of guidelines for effective corporate governance. The Company will be making every effort to comply with these guidelines. This issue is dealt with in more detail in the annual information circular.

## Outlook for 1997

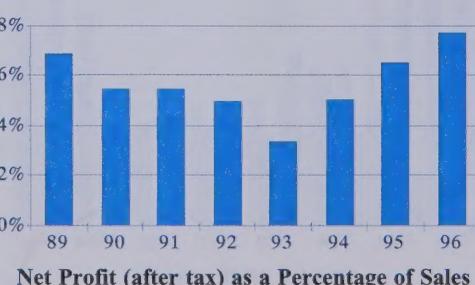
Sales for farm equipment and parts manufacturing are expected to increase in 1996. Profits are also expected to increase due to further utilization of new facilities and equipment acquired in the past 3 years.

The company is constantly on the lookout for acquisitions that will compliment its present lines of manufactured products. Such acquisitions, if successful, could result in significant sales growth.

## Risks

A significant depression in grain prices could have a negative effect on farm equipment and related parts sales. Management considers fluctuations in grain prices to be part of conducting business in this industry and believes the risk of depressed grain prices to be minimal in the near term.

The Company operates a U.S. subsidiary, Amarillo Service and Supply Inc., as an integrated foreign operation. In addition, the Company and certain of its subsidiaries sell directly to the U.S. market. Accordingly, the Company's exposure to fluctuations in the Canadian dollar is relative to foreign currencies. Management views exposure to fluctuating exchange rates to be a normal part of conducting business and considers the degree of exposure to be minimal.



# Eight Year Financial Summary

Year Ended September 30,	1989	1990	1991	1992	1993	1994	1995	1996
In thousands of Can. dollars (except per share amounts)								
<b>SUMMARY OF OPERATIONS</b>								
Net sales and services	\$ 18,243	\$ 20,401	\$ 22,790	\$ 23,827	\$ 33,583	\$ 48,040	\$ 56,575	\$ 66,517
Cost of sales	12,429	14,230	16,384	17,204	24,819	35,287	40,053	45,229
Gross profit	5,814	6,171	6,406	6,623	8,764	12,753	16,522	21,288
Selling expenses	1,887	1,885	2,252	2,140	2,254	3,287	3,638	4,496
Administrative expenses	1,421	1,487	1,737	1,801	2,521	3,191	3,821	4,585
Income from operations	2,506	2,799	2,417	2,682	3,989	6,275	9,063	12,207
Amortization	677	586	738	1,119	940	2,416	2,727	3,685
Research and development	405	388	110	220	305	726	470	498
Interest expense	913	1,402	1,193	778	518	518	1,063	679
Net income before taxes	1,250	1,102	1,504	1,269	1,735	2,734	4,803	7,345
Income taxes	-	17	259	91	593	493	1,100	2,212
Net income for the year	1,250	1,119	1,245	1,178	1,142	2,421	3,703	5,133
<b>CASH FLOW SUMMARY</b>								
Fixed asset purchases	\$ 1,244	\$ 746	\$ 2,364	\$ 1,952	\$ 969	\$ 9,369	\$ 7,884	\$ 10,043
Long-term debt incurred	832	265	1,439	-	-	1,827	3,061	-
Reduction of long-term debt	-	-	-	1,205	1,085	1,867	474	1,689
Dividends	250	100	-	176	10	623	832	1,097
Net cash flow	1,927	1,688	2,242	2,388	2,675	5,150	6,430	8,573
Bank cash (indebtedness)	(4,606)	(3,692)	(5,766)	(3,774)	(1,646)	(3,713)	365	(1,576)
<b>BALANCE SHEET SUMMARY</b>								
Working capital	\$ 7,807	\$ 8,142	\$ 11,081	\$ 10,083	\$ 11,278	\$ 8,743	\$ 11,677	\$ 10,466
Fixed assets - net	7,123	7,638	9,006	9,681	9,648	16,508	21,611	27,097
Long term debt	6,339	6,604	8,043	6,870	5,785	5,746	8,697	7,118
Net Worth	10,814	11,283	14,068	14,867	16,258	20,702	25,317	31,811
<b>DATA PER COMMON SHARE</b>								
Earnings before int., tax & amortization	\$ 0.15	\$ 0.16	\$ 0.18	\$ 0.17	\$ 0.17	\$ 0.29	\$ 0.41	\$ 0.48
Net earnings - fully diluted	0.06	0.05	0.06	0.06	0.06	0.12	0.18	0.22
Cash flow from operations	0.10	0.09	0.12	0.13	0.14	0.26	0.31	0.38
Dividends for year	0.02	0.01	0.01	-	0.03	0.04	0.05	0.06
Shareholders' equity at end of year	0.57	0.59	0.74	0.78	0.86	1.04	1.22	1.38
<b>STATISTICAL DATA</b>								
Working capital ratio	2.2	2.4	2.4	2.6	3.5	2.1	2.2	1.7
Total debt to equity	1.19	1.10	1.13	0.89	0.63	0.76	0.74	0.71
Long term debt to equity	0.59	0.59	0.57	0.46	0.36	0.28	0.28	0.22
Gross margin (% of sales)	31.9%	30.2%	28.1%	27.8%	26.1%	26.5%	29.2%	32.0%
Selling (% of sales)	10.3%	9.2%	9.9%	9.0%	6.7%	6.8%	6.4%	6.8%
Administration (% of sales)	7.8%	7.3%	7.6%	7.6%	7.5%	6.6%	6.8%	6.9%
Net after tax profit (% of sales)	6.9%	5.5%	5.5%	4.9%	3.4%	5.0%	6.5%	7.7%
Return on capital	10.8%	12.5%	12.8%	9.3%	10.0%	11.2%	17.8%	19.1%
Return on equity	11.8%	10.2%	9.7%	8.2%	7.4%	13.4%	16.1%	18.0%
Inventory turnover	1.6	2.1	1.8	2.1	3.4	4.6	4.3	5.0
<b>SEGMENTED DATA</b>								
Sales by market								
Canada	\$ 16,038	\$ 17,827	\$ 17,034	\$ 18,392	\$ 27,066	\$ 41,150	\$ 49,602	\$ 59,681
United States and other	2,205	2,574	5,756	5,435	6,517	6,890	6,973	6,836
Sales by Product								
Agricultural	\$ 17,118	\$ 18,651	\$ 20,545	\$ 20,435	\$ 28,128	\$ 40,771	\$ 48,259	\$ 49,497
Non-agricultural	1,125	1,750	2,245	3,392	5,455	7,269	8,316	17,020

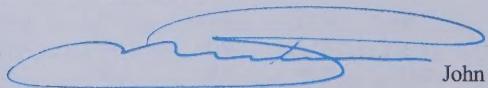
# Management's Responsibility For The Financial Statements

The consolidated financial statements of Buhler Industries Inc., were prepared by management in accordance with accounting principles generally accepted in Canada applied on a consistent basis. The significant accounting policies, which management believes are appropriate for the Company, are described in note 1 to the financial statements. The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

Management is responsible for the integrity and objectivity of the financial statements. Estimates are necessary in the preparation of these statements and, based on careful judgments, have been properly reflected. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee of the Board is responsible for reviewing the annual consolidated financial statements and reporting to the Board, making recommendations with respect to the appointment and remuneration of the Company's Auditors and reviewing the scope of the audit.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws and maintains proper standards of conduct for its activities.



John Buhler,  
President



Larry D. Schroeder,  
Vice-President



## Auditors' Report

To The Shareholders of Buhler Industries Inc.

We have audited the consolidated balance sheet of Buhler Industries Inc. as at September 30th, 1996 and 1995 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

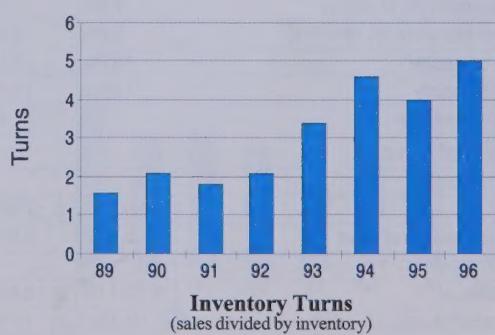
We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30th, 1996 and 1995 and the results of its operations and changes in financial position for the years then ended in accordance with generally accepted accounting principles.



Winnipeg, Manitoba  
November 28, 1996

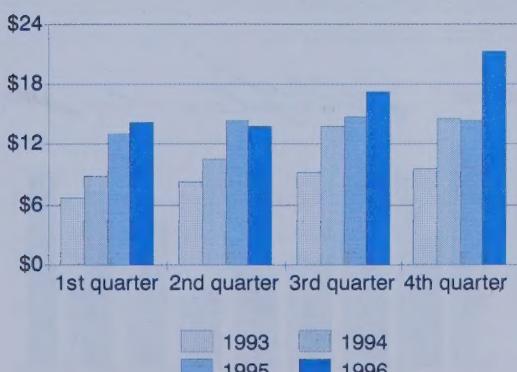
Chartered Accountants



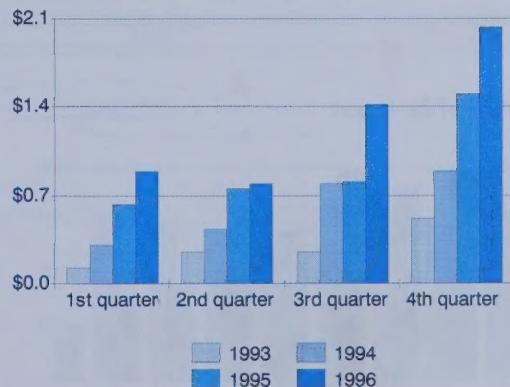
# Consolidated Statement of Earnings and Retained Earnings

(in thousands of Cdn. dollars)

September 30th	1996	1995		
<b>Net Sales and Other Revenue</b>	<b>\$66,517</b>	<b>\$56,575</b>		
Cost of goods sold	45,229	40,053		
<b>Gross Profit</b>	<b>\$21,288</b>	<b>32.0%</b>	<b>\$16,522</b>	<b>29.2%</b>
Selling expenses	4,496	6.8%	3,638	6.4%
Administration expenses	4,585	6.9%	3,821	6.8%
<b>Profit from Operations</b>	<b>\$12,207</b>	<b>18.4%</b>	<b>\$9,063</b>	<b>16.0%</b>
Interest expense	679		1,063	
Amortization	3,685		2,727	
Research and technical expenses	498		470	
<b>Net Income Before Taxes</b>	<b>\$7,345</b>	<b>11.0%</b>	<b>\$4,803</b>	<b>8.5%</b>
Provision for taxes current (note 7) deferred	2,212 0		1,250 (150)	
<b>Net Income for the Year</b>	<b>\$5,133</b>	<b>7.7%</b>	<b>\$3,703</b>	<b>6.5%</b>
Retained earnings, beginning of the year	12,267		17,646	
Less dividends	(1,097)		(832)	
Retained earnings capitalized	0		(8,250)	
<b>Retained Earnings, End of Year</b>	<b>\$16,303</b>		<b>\$12,267</b>	
<b>Earnings per share</b>	<b>\$0.22</b>		<b>\$0.18</b>	



Quarterly Sales



Quarterly Profits

# Consolidated Balance Sheet

(in thousands of Cdn. dollars)

September 30th

1996

1995

## Assets

### Current assets

Cash and term deposits	\$ 0	\$ 365
Accounts receivable - net	13,189	8,149
Inventories (note 2)	13,188	12,792
Prepaid expenses	197	102

### Total Current Assets

**\$26,574**

\$21,408

### Capital assets (note 3)

27,097

21,611

### Other assets

670

1,161

### Total Assets

**\$54,341**

\$44,180

## Liabilities

### Current liabilities

Bank indebtedness (note 4)	\$1,576	\$0
Accounts payable and accrued	12,060	8,018
Current portion of long term debt	2,472	1,713

### Total Current Liabilities

**\$16,108**

\$9,731

### Shareholders' loan (note 5)

1,340

1,602

### Long term debt (note 4)

4,646

7,094

### Deferred income taxes

436

436

### Total Liabilities

**\$22,530**

\$18,863

## Shareholders' Equity

Share capital (note 6)	15,508	13,050
Retained earnings	16,303	12,267

### Total Shareholders' Equity

**\$31,811**

\$25,317

### Total Liabilities and Equity

**\$54,341**

\$44,180

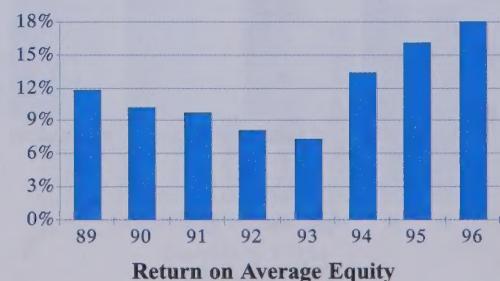
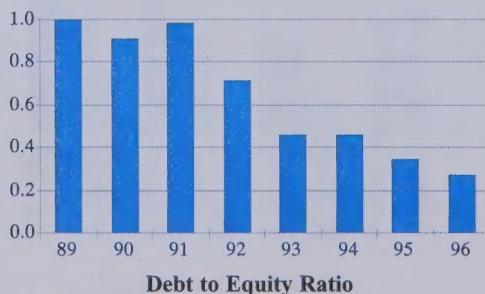
On behalf of the Board:



Director



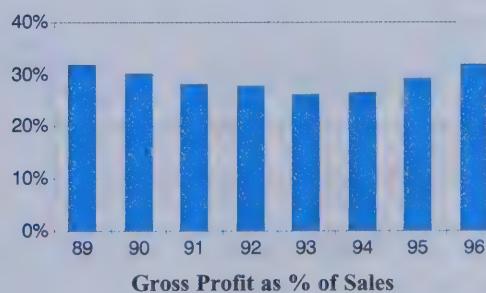
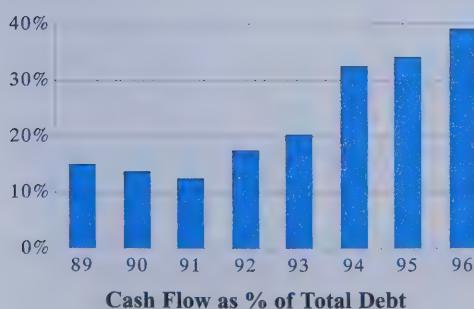
Director



# Statement of Changes in Financial Position

(in thousands of Cdn. dollars)

	Sept. 30 1996	Sept. 30 1995
<b>Cash provided by (used in)</b>		
<b>Operating Activities</b>		
Earnings for the period	\$5,133	\$3,703
Non-cash items		
Amortization	3,685	2,727
Deferred taxes	0	(150)
Changes in non-cash working capital components	(1,489)	(570)
<b>Operating activities</b>	<b>\$7,329</b>	<b>\$5,710</b>
<b>Investing Activities</b>		
Purchase of capital assets	(\$10,043)	(\$7,884)
Proceeds, sale of capital assets	872	54
Other Assets	491	623
<b>Investing activities</b>	<b>(\$8,680)</b>	<b>(\$7,207)</b>
<b>Financing Activities</b>		
Issue of share capital	\$2,458	\$1,744
Repayment of long-term debt	(1,689)	(474)
Proceeds from long-term debt	0	3,535
Proceeds (repayment) of shareholders loan	(262)	1,602
<b>Financing activities</b>	<b>\$507</b>	<b>\$6,407</b>
<b>Dividends</b>	<b>(\$1,097)</b>	<b>(\$832)</b>
<b>Changes in cash position</b>	<b>(\$1,941)</b>	<b>4,078</b>
Cash position, start of period	365	(3,713)
<b>Cash Position End of Period</b>	<b>(1,576)</b>	<b>365</b>
<b>Cash position is comprised of</b>		
Cash	0	365
Bank advances	(1,576)	0
	<b>(1,576)</b>	<b>365</b>



# Notes to the Consolidated Financial Statements

## 1. Significant Accounting Policies

### General

The consolidated financial statement includes the accounts of John Buhler Inc., Haskett Properties Inc., McDermot Parkade Inc., 441 Main Inc., Amarillo Service & Supply Inc., Isco Inc., Implement Sales Company Inc., Birchwood Furniture (Manitoba) Ltd., James Galloway and Associates Ltd., Ideal Glass & Mirror Makers Ltd., Dominion Lumber Winnipeg Ltd., Marberg Realty Ltd., and a joint venture interest in Bradley Steel Processors Inc.

### Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of Canadian inventories is determined on a first-in, first-out basis. Cost of U.S. inventories is determined on a last-in, first-out basis. It is the company's policy to record provisions for obsolete and slow moving inventory based on management estimates. These estimates are necessarily subject to a degree of measurement uncertainty.

### Capital Assets and Amortization

Capital assets are recorded at cost. Amortization is calculated as follows:

Software and tools	100%	
Leasehold improvements	100%	
Automotive	30%	declining balance
Computers	30%	declining balance
Equipment	30%	declining balance
Buildings	5%	straight line

### Other Assets

Other assets consist primarily of condominium units and land holdings in Morden, Manitoba, \$670 in 1996, (\$1,161 in 1995).

### Foreign Currency Translation

The accounts of U.S. operations have been translated into Canadian dollars as follows: assets and liabilities, at the year-end exchange rate; revenues and expenses, at the average exchange rate for the period. Exchange gains or losses arising on translation are included in income.

### Earnings Per Share

Earnings per share are based on the average number of common shares outstanding during the year.

## 2. Inventories

	1996	1995
Finished goods	\$9,825	\$8,559
Work in process	1,050	1,217
Raw material	2,313	3,016
	\$13,188	\$12,792

## 3. Capital Assets

	1996		1995	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$2,761	\$0	\$2,240	\$0
Buildings & Improvements	15,456	3,350	11,400	2,560
Plant & Equipment	23,390	11,160	17,922	7,391
	<u>\$41,607</u>	<u>\$14,510</u>	<u>\$31,562</u>	<u>\$9,951</u>
Net Book Value		<u>\$27,097</u>		<u>\$21,611</u>

(in thousands of Cdn. dollars)

## 4. Bank Indebtedness and Long Term Debt

	1996	1995	1996	1995
	Current	Long Term	Current	Long Term
Bank overdraft, including outstanding cheques	\$1,576	0	0	0
Bank of Montreal, First Bankers Acceptance	1,400	3,400	1,200	4,800
Bank of Montreal, US LIBOR loan	409	1,226	403	1,610
Mortgage Payable to Met. Trust, secured by specific real estate	655	0	0	655
Western Diversification	<u>8</u>	<u>20</u>	<u>0</u>	<u>29</u>
	4,048	4,646	1,603	7,094
Less: Current portion included in bank indebtedness	<u>1,576</u>	<u>--</u>	<u>0</u>	<u>--</u>
Balance	<u>\$2,472</u>	<u>\$4,646</u>	<u>\$1,603</u>	<u>\$7,094</u>

The Bank of Montreal loan is secured by a \$5 million demand debenture, a floating charge of US \$1.8 million on all fixed assets and an assignment of book debts and inventories up to the amount of the First Bankers Acceptance. Various corporations in the group are guarantors of each other. Interest rates on the above loans are all below bank prime.

Total long-term repayments are estimated as follows:

1997	\$1,817
1998	1,817
1999	1,012

## 5. Related Party Transactions

At September 30, 1996 the company had an outstanding shareholder loan due to Highland Park Financial Inc., a holding company 100% owned and controlled by Mr. John Buhler. Highland owns 71% of the voting shares of the company. The loan is without interest and is repayable in five years.

## 6. Capital Stock

Authorized unlimited number of Class A and Class B common shares. All shares are voting shares and rank equally.

Issued and Outstanding	Number of Shares	Stated Capital
Sept 30, 1995	Class A	\$12,028
	Class B	1,022
	Total	21,931
Options exercised during the year		

Class A	1,579	2,458
Total at Year End	23,510	\$15,508

The following class A common share options remain outstanding:

Quantity	Price	Expiry
410	\$1.50	Dec. 31, 1996
200	\$1.98	May 3, 1998

In March of 1996 a total of 1,097 options were issued to Highland Park Financial Inc., the principal shareholder, and exercised shortly thereafter.

# Notes to the Consolidated Financial Statements

## 7. Income Taxes

	1996	1995
Canadian corp. statutory income tax rate	45.0%	45.0%
Mfg. and processing profits deduction	(6.0%)	(6.0%)
Prior year tax loss carry forwards	(6.7%)	(7.4%)
Investment tax credits	(7.0%)	(13.8%)
Other	<u>4.8%</u>	<u>5.1%</u>
Effective tax rate	30.1%	22.9%

## 8. Pension Plans

In 1995, the Company established a Deferred Profit Sharing Plan for its employees and a trust to administer the plan. The plan trust acquired 806,452 Class A shares of the company in 1995 in exchange for a promissory note with a face value of \$1,200 in favor of Crocus Investment Fund. The promissory note is guaranteed by a subsidiary of the Company, Haskett Properties Inc.

The Company will contribute funds to the plan from profits as determined by the Board of Directors, subject to certain maximum limits established by the plan. Company contributions will be used to complete the purchase of Class A common shares for the benefit of members of the plan, through satisfying the obligation under the note.

In 1996, the Company contributed \$125 (\$50 in 1995) to the Deferred Profit Sharing Plan on behalf of plan members.

## 9. Lease Commitments

The Company normally follows the practice of purchasing all capital assets with the exception of existing lease agreements on warehouse locations in Memphis and Louisville. Total future lease commitments of \$200 consist of annual lease payments of less than \$79 over the next three years.

## 10. Acquisition of Dominion Lumber Winnipeg, Limited

On May 1, 1996, the company acquired 100% of the voting shares of Dominion Lumber Winnipeg Limited, a wholesale distributor of building products. The acquisition was recorded by the purchase method, whereby the purchase price is allocated based on the fair market value of the net identifiable assets;

### Consideration paid:

Cash	\$ 115
Debt assumed, Highland Park Financial	<u>3,690</u>
Total consideration	3,805

### Allocated to net assets acquired:

Total identifiable assets	4,961
Total liabilities assumed	(1,156)
Net assets acquired	\$3,805

The results of operations of Dominion Lumber Winnipeg Limited are included in the consolidated financial statements since the date of acquisition.

## 11. Joint Venture

Effective November 4, 1995, the Company sold 50% of the voting shares of Bradley Steel Processors Inc. to Gerdau MRM Ltd. effectively creating a

joint venture. As at September 30, 1996, these consolidated financial statements include the operations of Bradley Steel Processors on a proportionate consolidated basis as follows:

	Balance sheet	1996	Income	1996
Current assets	\$ 461	Net sales & other revenue	\$2,580	
Non-current assets	1,431	Income before tax	299	
Total assets	1,892	Net income	275	
Current liabilities	25	Cash Flow		1996
Due to joint venturers	1,592	Cash used in operations	(161)	
Total liabilities	1,617	Cash used in investment activities	(1,431)	
Joint venture share of equity	275	Cash provided by financing	1,592	
Total liabilities & equity	1,892			

## 12. Loss Carry Forwards

As a result of the purchase of Dominion Lumber Winnipeg Ltd. the company has losses carried forward of \$3,800 from prior years that are available to be applied against certain taxable income in future years. The potential tax benefit that may result from claiming these losses has not been reflected in the accounts. The losses carried forward expires as follows:

1997	\$ 322
1998	435
1999 & later	<u>3,043</u>
	\$3,800

All previous losses carried forward as a result of the amalgamation with Craftech Manufacturing Inc. have been utilized.

## 13. Segmented Information

The Company and its subsidiaries operate primarily throughout Canada and the United States in two primary industries; agricultural equipment manufacturing, and non-agricultural operations.

	1996	1995		
	Canada	USA	Canada	USA
Sales	\$59,681	\$6,836	\$49,602	\$6,973
Operating Profits	11,800	407	8,606	457
Assets	51,301	3,040	40,779	3,401

	Agriculture	Non-Ag.	Agric.	Non-Ag.
Sales	\$49,497	\$17,020	\$48,259	\$8,316
Operating profit	10,296	1,911	7,878	1,185
Assets	25,354	28,987	25,693	18,487

Export Sales for 1996 amounted to \$24 million, (\$21 million in 1995).

## Officers and Directors

Name	Office	Principal Occupation
John Buhler	Pres. and Managing Director	CEO, Buhler Industries Inc.
Larry D. Schroeder	Vice President	VP Sales, Buhler Industries Inc.
James H. Friesen	Secretary	CFO, Buhler Industries Inc.
Robert Chipman	Director	Chairman, The Megill Stephenson Company Limited
Patrick Cooney	Director	Managing Director, Gordon Private Client Corporation
Ross Giles	Director	President, Bromar Enterprises Ltd.
Edward Kennedy	Director	President and CEO, The North West Company Inc.
Sherman Kreiner	Director	Chairman, Crocus Investments Inc.
Allan L.V. Stewart	Director	Lawyer, Perlov Stewart Lincoln

## Internal Management Committee

John Buhler, President  
 Larry D. Schroeder, Vice President Sales  
 James H. Friesen, Chief Financial Officer  
 Richard A. Kneeshaw, Morden Operations Manager  
 Jean-Guy Fillion, Corporate Controller  
 Eric Allison, General Manager Fabrication Division  
 Helen Bergen, Human Resource Manager  
 Craig Engel, Manager of Engineering  
 Douglas Buhler, General Manager Furniture Division

## Audit Committee

Ross Giles, Chairman  
 Robert Chipman  
 Sherman Kreiner

## Corporate Banker

Bank of Montreal  
 Winnipeg, Manitoba

## Legal Counsel

Perlov Stewart Lincoln  
 Winnipeg, Manitoba

## Transfer Agent

The Montreal Trust Company of Canada  
 Winnipeg, Manitoba

## Auditors

Deloitte & Touche  
 Winnipeg, Manitoba

## Corporate Office

1201 Regent Ave West  
 Winnipeg, MB R2C 3B2  
 Phone (204) 661-8711

## Exchange Listing

The common shares of Buhler Industries Inc. are listed on the Toronto Stock Exchange and trading under the symbol "BUI.A"

## Annual Meeting

The annual meeting of shareholders of Buhler Industries Inc. will be held on Thursday, January 30th, 1997, at 11:00 a.m., Lombard Hotel, Winnipeg MB.

## Dividends

The Board of Directors have increased the annual dividend by 20% to \$0.06 per share compared with \$0.05 in 1995



## Trading Range

Quarter	1st	2nd	3rd	4th
High	\$1.55	\$1.65	\$1.98	\$1.95
Low	1.37	1.40	1.56	1.56
Close	1.46	1.59	1.60	1.66
Volume	287,217	668,221	632,847	338,727



Standing: Allan L.V. Stewart, Director - Edward Kennedy, Director  
Ross Giles, Director - Patrick Cooney, Director  
Seated: Robert Chipman, Director - John Buhler, President and Managing Director  
Not shown: Sherman Kreiner, Director



From left to right: Jim Friesen, Larry Schroeder, Rick Kneeshaw, Helen Bergen,  
Craig Engel, Doug Buhler, Eric Allison, Jean-Guy Fillion.  
Front: John Buhler

